



# State of North Carolina

## Office of the State Controller

**DAVID T. MCCOY**  
**STATE CONTROLLER**

The Honorable Beverly E. Perdue, Governor  
Members of the North Carolina General Assembly  
Citizens of North Carolina

In compliance with G.S. 143B-426.40H, it is our pleasure to provide you with the State of North Carolina's 2012 Comprehensive Annual Financial Report (CAFR). This report has been prepared by the Office of the State Controller. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the State's financial activities have been included.

Although the State budgets and manages its financial affairs on the cash basis of accounting, G.S. 143B-426.40H requires the Office of the State Controller to prepare a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP) in the United States of America. Except for schedules clearly labeled otherwise, this CAFR has been prepared in accordance with GAAP.

Management of the government is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

In compliance with North Carolina's General Statutes, an annual financial audit of the State financial reporting entity is completed each year by the North Carolina Office of the State Auditor. The Auditor's examination was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Auditor's opinion has been included in this report. In addition, the State coordinates the *Single Audit* effort of all federal funds through the State Auditor.

This letter of transmittal is intended to complement the management discussion and analysis (MD&A) and should be read in conjunction with it. The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, the MD&A focuses on the State's major funds: the General Fund, the Highway Fund, the Highway Trust Fund, the Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. Turnpike Authority, and the N.C. State Lottery Fund. The MD&A can be found immediately following the Independent Auditor's Report.

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## *Profile of the State of North Carolina*

### ***The Old North State, The Tar Heel State***

North Carolina became the 12<sup>th</sup> state of the union in 1789. North Carolina is located on the Atlantic coast and is bordered by Georgia, South Carolina, Tennessee and Virginia. The State has a land area of approximately 50,000 square miles. The State's estimated population is 9.78 million, making it the 10<sup>th</sup> most populated state in the nation. Ninety-two percent of the State's population lives in metropolitan areas. The North Carolina coastline is 301 miles, the greatest distance east to west is 543 miles, and the greatest distance north to south is 188 miles. The State's elevation rises from sea level on the eastern coastline to 6,684 feet at Mount Mitchell in the Appalachian mountain range on our western border. There are 79,415 miles of roads, with Interstate 40 crossing North Carolina east to west, and Interstates 85 and 95 crossing the State north to south. North Carolina's capital and central state government administration is located in Raleigh, in the central piedmont. Charlotte, Raleigh, Greensboro, Durham, and Winston-Salem are North Carolina's largest cities and there are 100 counties.

### ***Government***

North Carolina's state government consists of an executive branch, a legislative branch, and a judicial branch. The executive branch is headed by the Governor. The Governor, Lieutenant Governor, and eight other statewide elected officers form the Council of State. The State Constitution provides that, "A Secretary of State, an Auditor, a Treasurer, a Superintendent of Public Instruction, an Attorney General, a Commissioner of Agriculture, a Commissioner of Labor, and a Commissioner of Insurance shall be elected by the qualified voters of the State...."

The legislative power of the State is vested in the General Assembly, which consists of a Senate and a House of Representatives. The Senate is composed of 50 Senators, elected on a biennial basis. The House of Representatives is composed of 120 Representatives, elected on a biennial basis.

The Courts of the Judicial Branch are split into three divisions, the Appellate Division, the Superior Court Division, and the District Court Division. Judges are elected on a non-partisan basis.

### ***State Reporting Entity and Its Services***

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions and authorities governed and legally controlled by the State's executive, legislative and judicial branches. In addition, the reporting entity includes legally separate component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges, Golden LEAF, Inc., North Carolina Housing Finance Agency, North Carolina State Education Assistance Authority, and the State Health Plan. The criteria for inclusion in the reporting entity and its presentation are defined by the Governmental Accounting Standards Board (GASB) in its GASB Codification Section 2100. These criteria are described in Note 1 of the accompanying financial statements.

The State and its component units provide a broad range of services to its citizens, including primary and secondary education; higher education; health and human services; economic development; environment and natural resources; public safety, corrections, and regulation; transportation; agriculture and consumer services; and general government services. The costs of these services are reflected in detail and in summary in this report.

## ***Budgetary Control***

In addition to internal controls discussed previously, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the General Assembly. Activities of the General Fund, departmental special revenue funds, and permanent funds are included in the annual appropriated budget. The State Highway Fund and the Highway Trust Fund, the State's major special revenue funds, are primarily budgeted on a multi-year basis. Capital projects are funded and planned in accordance with the time it will take to complete the project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is exercised at both the departmental and university level, with allotment control exercised by the State Controller, and on the program line-item levels requiring certain approvals by the Director of the Budget. Legislative authorization of departmental expenditures appears in the State Appropriation Bill. The certified budget is the legal expenditure authority; however, the Office of State Budget and Management (OSBM) may approve executive changes to the legal budget as allowed by law. These changes result in the *final budget* presented in the required supplementary information.

## ***Economic Condition***

### ***Overview***

During FY 2011-12, the economy continued along the path of a steady, yet slow-moving, recovery from the Great Recession. Economic conditions in the State, as well as the nation, reflect a modestly improving economy. The slow-paced recovery has not been sufficient to improve economic conditions to levels experienced prior to the recession. During the fiscal year, growth in overall economic activity in the State improved, but remained below average. Despite the modest improvement in economic activity, employment struggled to gain solid-footing. The State's economy did add 59,600 jobs. This still left total employment in the State with 115,000 fewer jobs than the peak prior to the recession.

As we now know, the structural problems in the housing and financial markets that sent us into a recession have taken a long time to correct and have resulted in a much slower, prolonged recovery phase. During the fourth quarter of 2011, it appeared the slow recovery phase was poised to move into a full expansionary economy as the nation's Gross Domestic Product (GDP is a broad measure of economic activity) rose above the long-run average rate of growth. However, at the start of 2012, global and domestic economic problems became too difficult to overcome and the economy fell back to below average growth. Given the mixed signs of a recovery, both employers and consumers remained cautious.

During the fiscal year, the State's improvement in the overall economy led to a 3.4 percent increase in wage and salary income. Growth in total wage and salary income increased by 4.3 percent the first quarter of the fiscal year, but slowed to 2.9 percent growth in the last quarter ending June 2012. Both employment and income are anticipated to continue improving for the rest of 2012, although at a slower than normal pace. Stronger growth in these two key components is not expected until at least the second half of 2013.

## National Economic Outlook

### United States Economic Indicators

	FY2010-11 Actual	FY2011-12 Actual	FY2012-13 Projected	FY2013-14 Projected
Economic growth (GDP)*	1.9%	2.3%	2.2%	3.5%
Personal Income	5.5%	3.7%	4.9%	5.6%
Corporate Pre-Tax Profits	9.1%	8.6%	9.3%	5.3%
Retail Sales and Food Services	6.9%	6.8%	4.1%	4.6%
CPI	2.0%	2.9%	2.1%	2.6%
30-yr Fixed Mortgage Interest Rate	4.6%	4.0%	3.8%	5.2%

\*Adjusted for inflation

The aftermath of the global financial crisis continued to affect economies worldwide. This was especially true in the Eurozone where sovereign debt problems escalated during the fiscal year. Additionally, the persistent weakness in the nation's housing market, assured that weak economic conditions in the US would continue. As a result, the economy remained in a below-normal growth pattern throughout most of the fiscal year. The nation's outlook for the remainder of 2012 and most, if not all, of 2013, is for subpar economic growth.

Economic indicators convey the moderate pace of growth in the nation during the fiscal year. The overall economy experienced below average growth recording only a 2.3 percent increase in GDP. The economy appeared poised to move into a stronger recovery phase with annualized growth in GDP the first quarter of 2012 of 2.8 percent. By the next quarter, rather than accelerating, growth had slowed to 2.3 percent.

The ongoing problems in the global economy mean the nation's economy will struggle to gain momentum, and in FY 2012-13, is expected to grow by only 2.2 percent. The following fiscal year economic activity is expected to grow 3.5 percent, surpassing the long-run average rate of growth of 3.1 percent. The below average growth during 2012 and into 2013 means significant improvements in employment will take longer to develop. During the fiscal year, total personal income in the nation rose by 3.7 percent. Further advancements in the economy are projected to push personal income growth to 4.9 percent in FY 2012-13.

Additionally, given the persistently slow recovery, business profitability, which saw a major rebound in 2009 and 2010, leveled-off in 2011. Many businesses coming out of the recession were bolstered by a global economic recovery. Export demand grew significantly early in the fiscal year improving the balance sheets for many businesses. The subsequent sovereign debt crisis, which mostly affected European countries, has softened export growth and lowered expectations for profit growth over the next year. The result has been business investment has softened and hiring decisions continue to be put on hold.

A good indicator on the health of the economy is retail sales. This key indicator experienced continued strong growth in FY 2011-12. Consumers were hit hard during the economic downturn as household wealth declined, credit markets tightened, inflation-adjusted wages fell, and the employment picture darkened. These problems have improved, but continue to persist, and consumer spending is expected to soften in the following two fiscal years. Until the real estate and financial markets fully stabilize and the employment picture shows solid improvement, consumers may remain reluctant to increase their spending.

To summarize the national outlook, the global concerns about the fiscal health of many European nations along with the nation's struggles to repair the financial damage caused by the Great Recession impacted economic conditions for most of the fiscal year. Part of what was fueling economic growth, a global economic recovery, was set back with the realization of sovereign debt problems plaguing many industrialized nations. Thus, any chance for a full recovery was dragged down by these debt problems. This set the stage for a slow, difficult recovery where economic conditions were marked by a high rate of unemployment and moderate consumer spending.

Conditions are improving, but the slow recovery pattern is expected for at least another year. A robust, expansionary economy is not anticipated until sometime toward the end of 2013 at the earliest. That would be over four years after the Great Recession had technically ended.

## North Carolina Economic Outlook

### North Carolina Economic Indicators

	FY2010-11 Actual	FY2011-12 Actual	FY2012-13 Projected	FY2013-14 Projected
State Gross Product	2.7%	4.2%	5.2%	5.9%
Personal Income	4.4%	3.2%	4.3%	6.4%
Wages & Salaries	3.2%	3.4%	5.5%	7.8%
Retail Sales	7.2%	8.0%	5.6%	5.8%
Unemployment Rate	10.6%	10.1%	9.4%	8.8%
Employment (Nonagricultural)	0.9%	0.9%	1.4%	2.1%
Existing Single-family Home Sales	-17.4%	33.2%	19.5%	9.7%

For North Carolina, as with the nation, the economy has picked up pace, but not enough to eliminate the employment losses from the economic downturn. Economic indicators for the fiscal year, point to growing improvements across the State. The State's economy continued to add private sector jobs. These employment gains were offset as State and Local governments continued to reduce employment as their revenues remained well below pre-recession peaks. Despite adding 59,600 jobs during the fiscal year, there were still nearly 115,000 fewer people employed in the State than at the start of the recession. Some private sector industries experienced modest growth, but employment in sectors tied to the housing market such as construction and home furnishings showed little improvement. Along with the gains in employment, total salary income continued to improve growing 3.4 percent.

Projections for the State's key economic indicators reflect how the recovery in the State is expected to unfold. Gross State Product, a broad measure of the State's economic activity is expected to return to the long-run average rate of growth in FY 2012-13. Total personal income growth moderated in FY 2011-12, but is expected to show marked improvement over the next two fiscal years. For the fiscal year, income rose 3.2 percent, but the increase lags behind the strong growth of six to seven percent experienced in the years prior to the onset of the recession. Wage and salary income, a component of total personal income, grew at a modest 3.4 percent for the fiscal year. The rise in wage and salary income was consistent with the increase in total employment. Going forward, improved growth in total income is projected. This growth will result from a continually improving employment situation, which includes increased wages, as well as, an increase in the number of hours worked. A return to long-term growth levels in wage and salary income is forecast for 2013.

As with the nation, the recovery only gained a moderate degree of momentum during FY 2011-12. This meant fewer jobs were being created and the unemployment rate at the end of the fiscal year was elevated at 9.4 percent. That compares to the 9.9 percent at the start of the fiscal year. Despite a slow-growth economy and high unemployment, retail sales improved with 8 percent growth. The growth, while impressive, represents consumers catching-up from the significant declines in consumer spending during the recession and the first year of the recovery. Going forward, retail sales are expected to mirror the gradual improvement of the economy, increasing at a pace consistent with the long-term average growth rate of 5 percent.

As the State's economy continues along a path of gradual improvement, employment prospects are expected to improve, but a robust employment climate is not projected until 2013. Even with improving employment conditions, growth will be slow and the unemployment rate will remain elevated in the 9 percent range. By the end of calendar year 2012, most industry sectors are expected to experience growth over the previous year with net employment growth of 1.6 percent. The construction industry is one of the few key industries expected to have employment losses in 2012. For 2013, modest improvement in all industries is expected, increasing non-agricultural

employment by 2.1 percent. This level of growth will slowly bring down the unemployment rate. The rate is projected to average 9.4 percent in FY 2012-13, and 8.8 percent in FY 2013-14.

The State's manufacturing sector is always vulnerable to economic downturns and job losses in this industry sector reached double-digit losses in the last recession. During this fiscal year, the manufacturing sector added only 1,700 jobs (0.4 percent growth) and employs 96,000 fewer people than at the start of the recession. Another hard hit industry was the financial sector. The financial market upheaval had a detrimental impact on this sector's employment, but it began to rebound the first half of 2010 and in 2012, growth is expected to reach 3.6 percent.

The housing recession and the subsequent adjustments in the real estate market have taken a very long time to unwind. The housing recession that began in 2006, appeared to be ending at the start of 2010. Existing home sales in the State saw double-digit growth the first-half of that year. The second half of the year erased those gains and in FY 2010-11 sales were off by 17.4 percent. Housing data began to show steady improvements in 2011, and a relatively strong rebound in housing is expected over the next two years. Nonetheless, for 2012, sales of existing homes are projected to remain twenty-five percent below what they were in 2006.

The slow, steady economic recovery that persisted throughout FY 2011-12, has the State's economy on more solid footing. Ongoing weakness in the global economy has been a drag on the pace of the economic recovery, both for the nation and the State, and continues to pose a risk for economic growth. A return to a full expansionary economy fueling stronger employment gains is not projected until 2014, nearly five years after the recession technically ended. Until then, the housing market should maintain its gradual improvement, and steady growth in household income and consumer spending are anticipated.

— *Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist  
North Carolina General Assembly, Fiscal Research Division  
October 19, 2012*

## Facts and Figures

North Carolina continues to grow and to be an attractive place to live, to work, and to raise a family. The State was recently ranked as the nation's "Top Business Climate" for 2012 according to *Site Selection* magazine. It is the tenth time in the last 12 years the State has taken the top honor in the annual selection by the magazine. In addition, North Carolina is consistently ranked among the best business climates in the nation by CNBC, *Forbes* and *Chief Executive*.

Some pertinent data are below. Additional detail may be found in the statistical tables which are in the last section of the report. Detailed information on the State's retirement plans may be found in Note 12.

- North Carolina's population has grown by 1.46 million, or 17.6 percent over the last 10 years.
- Road lane miles have grown by 1,065 miles, or 1.4 percent since 2001, with an additional 777 bridges since 2002.
- State Highway Patrol vehicles have increased from 1,956 in 2002 to 2,373 in 2012.
- Private vehicles registered have grown from 7.5 million in 2002 to 8.74 million in 2012, an increase of 16.6 percent over the last 10 years.
- K-12 public school enrollment has increased by 15.2 percent over the last ten years, from 1.286 million in 2002 to 1.482 million in 2012.
- University enrollment has increased by 59,114, or 41.8 percent over the last 10 years.
- Community college enrollment has increased by 63,595, or 36 percent over the last 10 years.
- Medicaid beneficiaries have grown by 330,829, or 21.5 percent over the last 8 years.
- Food stamp recipients have increased by 1,322,407, or 167.1 percent over the last 8 years.
- Incarcerated adult offenders have increased by 5,529 or 16.8 percent, while supervised adult offenders have decreased by 14,211 or 12.8 percent over the last 10 years.
- The number of employed has grown by 500,614, or 13.5 percent over the last 10 years. However, the number of unemployed has grown as well by 190,773, or 76.7 percent. In 2012, the unemployment rate is 9.4 percent; in 2002 it was 6.3 percent.
- Positions funded by the State budget have increased overall by 40,257, or 14.3 percent over the last ten years. The largest areas of position growth occurred in education: primary and secondary education, 22,021 (15.7 percent growth); universities, 11,883 (23.9 percent growth); community colleges, 5,552 (39.8 percent growth). In contrast, health and human services experienced a decrease of 474 positions, a 2.5 percent decrease over the last eight years.
- With an aging State workforce, accelerating numbers of retirements, lower investment rates of return, lower funded levels, and rising healthcare costs, the obligations related to State-funded pensions and retiree healthcare obligations continue to grow. For the Teachers' and State Employees' Retirement System (TSER), the number of retirees/beneficiaries has grown from 112,490 in 2002, to 171,786 in 2012, an increase of 59,296, or 52.7 percent. Active employees included in TSER have grown to 317,906, a 6.9 percent increase during the same period. There are an additional 110,686 former employees that will be eligible for retirement benefits in the future.
- State debt has increased from \$3.49 billion in 2002, to \$8.94 billion in 2012, an increase of \$5.45 billion, or 156.1 percent over the last ten years. Debt per capita has grown from \$420 per capita to \$914 per capita during the same period.
- The taxpayer burden related to individual income tax has shifted by 10.8 percent from those earning less than \$75,000 in taxable income, to those earning more than \$75,000 from 2001 to 2010.
- The average effective state individual income tax rate for 2010 was 2.8 percent and has ranged from 2.7 to 3.4 percent between 2001 and 2010.

## *Long-term Financial Planning and Major Initiatives*

### **Other Postemployment Benefits**

For the State retiree healthcare benefit, the December 31, 2011 actuarial valuation using the projected unit credit cost method indicated an accrued liability of \$30.339 billion for the retiree healthcare plan (\$29.61 billion unfunded), with an annual required contribution (ARC) of \$2.48 billion. This represents an improvement of approximately \$3.192 billion in the total and unfunded liability and over \$400 million in the ARC from last year's valuation. The State has taken action to address the liability including changing vesting periods, transitioning to a prescription drug benefit plan through an approved Employer Group Waiver Plan and initiating longer term investment strategy for excess funds.

### **Legislatively Mandated Agency Consolidations**

Effective January 1, 2012, a new Department of Public Safety was created by the consolidation of three agencies: Department of Correction; Department of Crime Control and Public Safety; and Department of Juvenile Justice and Delinquency Prevention. The consolidation was enacted to streamline government and save costs related to administration and staff. This merger reduced the number of cabinet secretaries appointed by the Governor from 10 to 8. Executive management positions were eliminated in each of the three agencies for a total savings of 34 full-time equivalent positions and \$1.9 million in fiscal year 2012. As the consolidation process moves forward additional savings are anticipated in areas such as purchasing and training. The structure of the new agency maintains separation between the juvenile and adult systems while allowing coordination of administrative and facility management functions. Juvenile Justice and Delinquency Prevention is now included with the public safety, corrections, and regulation function whereas in prior years it was included with the health and human services function.

Other significant changes mandated for fiscal year 2012 were as follows. Effective January 1, 2012, the State Health Plan, a discretely presented major component unit, was transferred to the Department of State Treasurer. The transfer gave the State Treasurer oversight for the State Health Plan and the authority to appoint the Executive Administrator of the State Health Plan as well as fill any vacancy in the office of the Executive Administrator, after consultation with the Board of Trustees. In another conversion, the Employment Security Commission was merged with the Department of Commerce to align the employment security functions of state government under the direct leadership of the Secretary of Commerce. The legislation directing this merger also made substantive and conforming changes to the employment security laws. Another major move was the transfer of the Division of Forest Resources and the Forestry Council from the Department of Environment and Natural Resources to the Department of Agriculture and Consumer Services. With this transfer, all Forestry related care and work responsibilities became part of the agriculture function whereas in prior years they were included with the environment and natural resources function. Finally, the N.C. State Ports Authority and the N.C. Global TransPark Authority, two nonmajor discretely presented component units, were realigned within the Department of Transportation. Both agencies were required to convert to the State human resources and budgeting/accounting systems and were placed under the direct oversight of the Secretary of Transportation. In summary, for all of these consolidations, the vision was to bring about a more streamlined and focused State government.

These agency conversions were accomplished by the collaboration of staff at the affected agencies with assistance from central manager agencies including the Office of State Budget and Management, the Department of State Treasurer and the Office of the State Controller. We express our deepest gratitude to all the agency personnel involved for their hard work and dedication in accomplishing these conversions in an effective and timely manner.



## *Relevant Financial Policies*

### **Savings Reserve Account**

General Statute 143C-4-2 established the Savings Reserve Account as a reserve in the General Fund. The State Controller “shall reserve to the Savings Reserve Account one-fourth of any unreserved fund balance, as determined on a cash basis, remaining in the General Fund at the end of each fiscal year.”

The Savings Reserve Account is a component of the unappropriated General Fund balance. Funds reserved to the Savings Reserve Account shall be available for expenditure only upon an act of appropriation by the General Assembly. The General Assembly recognizes the need to establish and maintain sufficient reserves to address unanticipated events and circumstances such as natural disasters, economic downturns, threats to public safety, health, and welfare, and other emergencies. It is a goal of the General Assembly and the State to accumulate and maintain a balance in the Savings Reserve Account equal to or greater than 8% of the prior year’s General Fund appropriation budget.

At the beginning of fiscal year 2011-12, the balance of the Savings Reserve Account was \$295.6 million. In accordance with Session Law 2012-142 the State Controller was directed to transfer \$123.2 million from the unreserved fund balance to the Savings Reserve Account on June 30, 2012, bringing the balance to \$418.8 million. This represents 2.2% of the prior year’s General Fund appropriation budget.

### **Debt Affordability Study**

The 2004 General Assembly passed legislation creating the Debt Affordability Advisory Committee. The Committee is charged, on an annual basis, with advising the Governor and the General Assembly of the estimated debt capacity of the State for the upcoming 10 fiscal years.

The Committee is responsible for preparing an annual debt affordability study and establishing guidelines for evaluating the State’s debt burden. The Committee is required to report its findings and recommendations to the Governor, the General Assembly, and the Fiscal Research Division of the General Assembly by February 1 of each year. The report serves as a tool for sound debt management practices by the State of North Carolina. In February 2012, the Committee completed the most recent debt affordability study for the State. The report provides the Governor and the General Assembly with a basis for assessing the impact of future debt issuance on the State’s fiscal position and enables informed decision-making regarding both financing proposals and capital spending priorities. The report also provides a methodology for measuring, monitoring and managing the State’s debt levels. The concept of debt affordability is widely regarded as an essential management tool. The methodology used in the study to analyze the State’s debt position incorporates historical and future trends in debt levels, peer group comparisons and provides recommendations within adopted guidelines. The study also provides recommendations regarding other debt management related policies considered desirable and consistent with the sound management of the State’s debt. Such recommendations were developed by incorporating management practices consistent with those utilized by the most highly rated states.

The Committee’s adopted guidelines attempt to strike a balance between providing sufficient debt capacity to allow for the funding of essential capital projects and imposing sufficient discipline so that the State does not create a situation that results in the loss of future budgetary flexibility and deteriorating credit position. The following target and ceiling guidelines are the basis for calculating the recommended amount of General Fund-supported debt that the State could prudently authorize and issue over the next ten years:

1. Net tax-supported debt service as a percentage of general tax revenues should be targeted at no more than 4% and not exceed 4.75%;
2. Net tax-supported debt as a percentage of personal income should be targeted at no more than 2.5% and not exceed 3.0%; and
3. The amount of debt to be retired over the next ten years should be targeted at no less than 55% and not decline below 50%.

The Committee has adopted the ratio of debt service as a percentage of revenues as the controlling metric that determines the State’s debt capacity. The results of the Committee’s 2012

study indicate the ratio of debt service to revenues will peak at 4.07%, slightly above the 4% target, improving markedly thereafter.

## *Awards and Acknowledgements*

### **Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of North Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This was the 18<sup>th</sup> consecutive year (1994 to 2011) the State has received the prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

### **Acknowledgments**

In conclusion, we believe this report provides useful data to all parties using it in evaluating the financial activity of the State of North Carolina. We in the Office of the State Controller express our appreciation to the financial officers throughout the State and to the Office of the State Auditor for their dedicated efforts in assisting us in the preparation of this report. Any questions concerning the information contained in this report should be directed to the Office of the State Controller at (919) 707-0500.

Respectfully submitted,



David T. McCoy  
State Controller

December 3, 2012

# CERTIFICATE OF ACHIEVEMENT

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of North Carolina

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Danison*

President

*Jeffrey R. Enen*

Executive Director